

AGENDA

Utility Management Review Board

August 6, 2009

2:00 p. m. Eastern Time

Park Vista Hotel

705 Cherokee Orchard Road

Gatlinburg, Tennessee

Call to Order

Approval of Minutes

April 2, 2009

Cases: Hampton Utility District Carter County
Roane Central Utility District Roane County

Complaints: Webb Creek Utility District vs. Outdoor Resorts of America
Webb Creek Utility District vs. Bent Creek Golf Village

New Legislation: Public Chapter 72 Financial Distress definition
Public Chapter 249 Sunset to 2015
Public Chapter 316 Petitions to add service
Public Chapter 320 Petitions to merge systems
Public Chapter 423 Expands authority
Procedure for staff processing

Open Discussion: Clay County Gas Utility District
Proposed rules status
Those without schedules or meters
Joint meeting with WWFB to set water loss
Complaint procedure

Miscellaneous: Complaint log
Jurisdiction list
Next meeting October 1, 2009

For further information, please contact:

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MINUTES
of the
UTILITY MANAGEMENT REVIEW BOARD MEETING
APRIL 2, 2009
10:00 a.m.

Chairman David Norton opened the meeting of the Utility Management Review Board (UMRB) at Legislative Plaza, Room 31, Nashville, Tennessee.

Board members present and constituting a quorum:

David Norton, Chairman, Hixon Utility District

Ann Butterworth, Vice Chairman, Designee of Comptroller

Tom Moss, Designee of Commissioner of Department of Environment and Conservation (TDEC)

Dr. Rosemary Wade-Owens, Consolidated Utility District

Donnie Leggett, Hardeman-Fayette Utility District

Troy Roach, New Market Utility District

Ray Smith, West Tennessee Public Utility District

Ronald West, Waldens Ridge Utility District

Staff present:

Joyce Welborn, Division of Local Finance; Comptroller's Office

David Bowling, Division of Local Finance; Comptroller's Office

Bobby Lee, General Counsel; Comptroller's Office

Others present:

Bill Case, Division of Municipal Audit; Comptroller's Office

John Hall, Tennessee Association of Utility Districts

APPROVAL OF MINUTES

Chairman Norton called for a motion to approve the minutes of the February 2, 2009 meeting. Mr. Smith made the motion. Ms. Butterworth seconded the motion and it was approved.

CASE STUDIES

TARPLEY SHOP UTILITY DISTRICT

Ms. Welborn made the presentation concerning Tarpley Shop Utility District. The District had been reported to the Board as having three consecutive years of negative change in net assets as of the District's annual financial report on June 30, 2007. However, the June 30, 2008 audit indicated a positive change in net assets. Consequently, the District is no longer financially distressed. Ms. Butterworth made a motion that the UMRB consider Tarpley Shop Utility District in compliance. Mr. West seconded the motion and it was approved.

BEDFORD COUNTY UTILITY DISTRICT

Ms. Welborn made the presentation concerning Bedford County Utility District. Information provided by the Division of Municipal Audit indicates the District's natural gas system has had negative change in net assets and negative total net assets for at least five consecutive years. At the UMRB meeting in October, 2008, the District was told to appear before the Board at the April, 2009 meeting review its situation and discuss its marketing program. Ms. Welborn introduced Martin Davis, District Manager, and Burton Beckwith, Jackson Thornton Utilities. Mr. Davis

stated that Jackson Thornton has prepared an evaluation of the District's natural gas operations and asked Mr. Beckwith to further explain to status of the District. Mr. Beckwith indicated that he believes sales strategies the District has implemented over the last six months together with improvements in the natural gas market will result in an improved financial situation for the District. Following that presentation, Mr. Smith made a motion that the District submit an updated report to staff within the next six months for presentation to the UMRB describing the District's financial position. Mr. West seconded the motion and it was approved.

STATUS REPORT

Iron City Utility District

Ms. Welborn asked John Hall of TAUD to make comments concerning Iron City Utility District. Mr. Hall stated that he has visited the District and they have made improvements. They have installed an in-house leak detection system and are repairing leaks as they are discovered. The leak amount has been reduced by about one-third. Also, in the past, the District has used part-time staff but now plans to hire a full time employee. It is believed that one full-time employee can be hired for the same amount as several part time employees. Mr. Smith made a motion that Mr. Hall continue to work with the District and report back to the UMRB in six months concerning the District's status at that time. Dr. Wade-Owens seconded the motion and it was approved.

PETITIONS

Ms. Welborn stated that a petition has been submitted for creation of Springville Utility District in Henry County. She briefly explained the petition, the area to be served, the proposed water system and rate structure, and the dire need for the water. Mr. Norton asked about pending legislation that, if passed, will allow the Board to approve or deny creation of a utility district. Ms. Welborn explained that current law only allows the Board to comment on the creation with the final decision being made by the County Mayor. She introduced Jason Griffin, of Gresham Smith and Partners, the District's consulting engineers. Mr. Griffin introduced Amon Carter Evans, President of the District, Mary Warren, Henry County Commissioner, and Lee Greer, of Greer & Greer, Attorneys, attorney for the petitioner. Mr. Griffin also made statements concerning the need for this District and his firm's study regarding the need for the District's creation. During a lengthy discussion/question and answer period, several members of the Board expressed concerns that a stronger effort has not been made regarding how many residents in the area would pre-commit to purchasing water from the District if it were created. Board members also expressed concerns that the financial information submitted to the Board indicates a proposed minimum bill of \$40 per month which may result in the District being financially distressed and placed under UMRB jurisdiction in three years. Mr. Griffin stated that funding sources, primarily consisting of federal grants and loans, are being considered, with the understanding that if rates acceptable to potential customers will not be sufficient to maintain the District in a financially sound condition, the District will not go forward with construction of the proposed water line. Chairman Norton recognized State Representative Borchert who stated that this was in his legislative area and he believes there is a need for the District and supports its creation. Mr. Evans made a few comments about water problems in the area and the need for the District. He emphasized Mr. Griffin's statement that the project will not be allowed to go forward if it is determined that customers will not pay the rates necessary to keep the District financially sound. Additional concerns were expressed to Mr. Evans by several members of the Board. Chairman Norton inquired about the responsibility of the UMRB in this matter. Ms. Welborn again stated that current law allows the UMRB to make comments concerning the petition—there is no present authority for approval or denial by the UMRB concerning creation of a utility district. Mr. Leggett made a motion that the UMRB give a positive endorsement regarding creation of the Springville Utility District with the understanding that the presentation which has been made today to the UMRB in support of such creation included assurances that the District will not proceed with construction of a water line if it

is determined that rates charged will not maintain the District in a financially sound condition. Mr. Smith seconded the motion and it was approved, with Mr. Roach voting in the negative. The Board also directed staff to send its comments as presented to the County Mayor along with a portion of the minutes.

COMPLAINT REGARDING WEBB CREEK UTILITY DISTRICT

Ms. Welborn stated that she had received complaints from Outdoor Resorts and Bent Creek Resorts concerning actions of Webb Creek Utility District in performing a rate study as they agreed to do following the UMRB's meeting on February 2, 2009. At that meeting the parties were instructed to work together and report back to the Board at the April meeting. Ms. Welborn introduced Jim Gass, Attorney for Webb Creek. Mr. Gass stated that following the April meeting, Webb Creek determined to pay all costs for an independent firm to perform the rate study. Proposals were submitted by several qualified firms and on March 31, 2009, the District selected Raftelis Financial Consultants, Inc. to perform the study. The contract provides for the study to be completed within 90 days of commencement. Ms. Welborn introduced Marshall Albritton, Attorney for Outdoor Resorts. Mr. Albritton made several comments regarding refusal by Webb Creek to permit the consulting engineers for Outdoor Resorts to review information being collected by the independent firm currently performing the rate study. He also asked that the rate increase to his client be suspended pending completion of the study. In response, Mr. Gass stated that the rate study would be performed in accordance with the contract between Webb Creek and the independent firm. Chairman Norton recognized Robert Vick, President of Webb Creek Utility District. Mr. Vick confirmed that Webb Creek agreed to pay for the rate study and that the study will be performed in accordance with the contract between Webb Creek and the independent firm performing the study. Following several comments by Mr. Leggett, Ms. Butterworth and Mr. Norton, Ms. Butterworth made a motion that UMRB staff inquire about the status of the rate study prior to the UMRB meeting in June and present any findings to the Board at that time. Any further decisions of the Board will be deferred until the study is complete. The Board, however, did not eliminate the possibility of a retroactive adjustment. Mr. Smith seconded the motion and it was approved.

MISCELLANEOUS

Complaint Log—Ms. Welborn advised the Board that a copy of the complaint log has been included in this meeting's package and she will notify members of the Board if she receives any complaints involving their respective Districts.

Jurisdiction List—Ms. Welborn reviewed the list of utility districts currently under the UMRB's jurisdiction.

Open Meetings Education Program—Ms. Welborn stated that the proposed training materials were distributed to the members at the last UMRB meeting and she has not received any comments with regard to those materials. Mr. Leggett made a motion to approve the training program as presented, with staff having authority to make minor changes to the program if considered necessary and notifying the UMRB at the next meeting. Mr. Smith seconded the motion and it was approved.

PENDING LEGISLATION

Ms. Welborn gave brief summaries and the status of the six pieces of legislation affecting the Board which have been proposed in the current legislative session.

OPEN DISCUSSION

Ms. Welborn stated that moving the UMRB meeting time from 9am to 10am has resulted in a slight financial savings.

Ms. Welborn stated that there are currently not a sufficient number of cases for a June meeting. If additional cases are not forthcoming, she will notify the Board of the cancellation of that meeting at a later date.

Ms. Welborn reminded the Board that the 2008 August meeting of the UMRB was part of a TAUD training program in Gatlinburg and that it had been suggested that the Board hold their 2009 August meeting again in Gatlinburg as part of the program. John Hall stated that TAUD received very favorable comments concerning last year's program. The Board briefly discussed this and agreed to meet in August in Gatlinburg. Mr. Hall advised the Board that he will meet with the conference planning committee later this month and will propose that the Board meeting be held as the final afternoon session on Thursday, August 6, 2009. Board members will be notified later of the actual date, time and location.

Chairman Norton asked for a motion to adjourn. Mr. Smith made the motion. Ms. Butterworth seconded the motion and it was approved. Chairman Norton declared the meeting adjourned at 12:05pm.

Respectfully submitted,

David Norton
Chairman

Joyce Welborn
Board Coordinator

UTILITY MANAGEMENT REVIEW BOARD
Case Study

Case: Hampton Utility District, Carter County
Manager: Terry Banner
Customers: 1,496 water
Water loss: 25.63%

The Hampton Utility District has been reported to the Board as three consecutive years with negative change in net assets as of November 30, 2008:

The rates in effect for the November 30, 2008 audit were:

	<u>Residential</u>	<u>Commercial</u>
0 - 2,000 gallons	\$9.00 minimum bill	\$13.48 minimum bill
Over 2,000 gallons	\$2.15 per thousand gallons	same as residential
South Elizabethton UD	\$0.80 per thousand gallons	

On December 1, 2008, the rates were increased as follows:

	<u>Residential</u>	<u>Commercial</u>
0 - 2,000 gallons	\$11.00 minimum bill	\$15.48 minimum bill
Over 2,000 gallons	\$ 2.75 per thousand gallons	same as residential
South Elizabethton UD	\$1.00 per thousand gallons	

The Commissioners determined that an increase of \$4.00 per user was needed, but the commissioners voted to add \$2.00 to the minimum bill and \$0.60 per thousand gallons. South Elizabethton UD purchases approximately 70% of the water pumped from the spring at Hampton. The water is pumped to a South Elizabethton meter across the road from the spring and then sent 3 miles to the remainder South Elizabethton system. On the outer fringe of the South Elizabethton system, Hampton repurchases water to serve twenty of its own customers. There are 75 to 100 miles of line in the Hampton system.

The 50 year contract between the two entities expired June 19, 2009. Hampton initially wanted to charge South Elizabethton UD the same per thousand gallon rate that it charges its own customers; but decided that an independent consultant should be hired to evaluate the rates. The UD spent \$7,000 on the rate study and decided not to complete it.

The day after the expiration of the contract, Hampton increased the rates to South Elizabethton UD from \$1.00 to \$2.75 per thousand. South Elizabethton has offered to have a commissioner, attorney and manager from each district meet to negotiate the contract, but is waiting on their attorney to get back to his office. The minimum bill of each South Elizabethton customer was increased from \$13.00 to \$29.80 monthly as a result of the increase. Without a successful negotiation, South Elizabethton has voted to sue Hampton.

The last increase of the Hampton Utility District prior to 12/8/08 was in January 1, 2002.

Staff recommends that the District proceed with the rate study and continue to negotiate the water purchase contract with South Elizabethton. Staff also recommends that Hampton be scheduled to reappear before the Board in approximately six months with all the matters resolved.

HAMPTON UTILITY DISTRICT OF CARTER COUNTY			
HISTORY FILE			
Fiscal Year November 30	Audited 2006	Audited 2007	Audited 2008
Water revenues	\$ 397,638	\$ 408,732	\$ 405,504
Other revenues	\$ 19,285	\$ 19,590	\$ 24,864
Total Operating Revenues	\$ 416,923	\$ 428,322	\$ 430,368
Total Operating Expenses	\$ 423,531	\$ 450,739	\$ 471,282
Operating Income	\$ (6,608)	\$ (22,417)	\$ (40,914)
Interest Expense	\$ 5,133	\$ 4,334	\$ 3,800
Change in Net Assets	\$ (11,741)	\$ (26,751)	\$ (44,714)
<u>Supplemental Information</u>			
Principal payment	\$ 20,447	\$ 16,599	\$ 7,717
Depreciation	\$ 79,195	\$ 66,759	\$ 60,384
<u>Water Rates</u>			
<u>Residential</u>			<u>12/1/2008</u>
First 2,000 gallons	\$ 9.00	\$ 9.00	\$ 11.00
over 2,000 gallons	\$ 2.15	\$ 2.15	\$ 2.75
Tiger Valley minimum	\$ 20.32	\$ 20.32	\$ 11.00
<u>Commercial</u>			
First 2,000 gallons	\$ 13.48	\$ 13.48	\$ 15.48
over 2,000 gallons	\$ 2.15	\$ 2.15	\$ 2.75
<u>Utilities</u>	\$ 0.80	\$ 0.80	\$ 1.00
<u>WRRWA Surcharge</u>	\$ 2.00	\$ 7.00	\$ -
<u>Customers</u>	1,506	1,509	1,496
Residential	1,407	1,410	1,391
Industrial	5	6	6
Business Establishments	69	72	77
Schools	4	4	4
Churches	17	13	14
Utilities	4	4	4
Water Loss	21.91%	27%	25.63%

Hampton Utility District						
Projections						
	Audited	Projected	0%	Growth rate	Growth rate	Growth rate
	2008	2009		Projection	Projection	Projection
Fiscal Year November 30				2010	2011	2012
Water revenues	\$ 405,504	\$ 405,504		\$ 405,504	\$ 405,504	\$ 405,504
Other revenues	\$ 24,864	\$ 24,864		\$ 24,864	\$ 24,864	\$ 24,864
			26%	\$ 105,431	\$ 105,431	\$ 105,431
Total Operating Revenues	\$ 430,368	\$ 430,368		\$ 535,799	\$ 535,799	\$ 535,799
Total Operating Expenses	\$ 471,282	\$ 485,420	3%	\$ 499,983	\$ 514,983	\$ 530,432
Operating Income	\$ (40,914)	\$ (55,052)		\$ 35,816	\$ 20,816	\$ 5,367
Interest Expense	\$ 3,800	\$ 3,492		\$ 3,088	\$ 2,664	\$ 2,219
Change in Net Assets	\$ (44,714)	\$ (58,544)		\$ 32,728	\$ 18,152	\$ 3,148
<u>Supplemental Information</u>						
Principal payment	\$ 7,717	\$ 11,592		\$ 11,592	\$ 11,592	\$ 11,592
Depreciation	\$ 60,384	\$ 60,384		\$ 60,384	\$ 60,384	\$ 60,384
<u>Water Rates</u>						
<u>Residential</u>	12/1/2008					
First 2,000 gallons	\$ 11.00					
over 2,000 gallons	\$ 2.75					
Tiger Valley minimum	\$ 11.00					
<u>Commercial</u>						
First 2,000 gallons	\$ 15.48					
over 2,000 gallons	\$ 2.75					
Utilities	\$ 1.00					
<u>WRRWA Surcharge</u>	\$ -					
<u>Customers</u>	1,496					
<u>Residential</u>	1,391					
<u>Industrial</u>	6					
<u>Business Establishments</u>	77					
<u>Schools</u>	4					
<u>Churches</u>	14					
<u>Utilities</u>	4					
<u>Water Loss</u>	25.63%					



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June 29, 2009

Joyce Welborn, Board Coordinator
State of Tennessee Comptroller of the Treasury
Division of Local Finance
Utility Management Review Board
Suite 1700 James K. Polk State Office Building
505 Deaderick Street
Nashville, TN 37243-1402

Re: Hampton Utility District

Dear Ms. Welborn:

I represent the Hampton Utility District, and they have requested that I respond to your letter dated May 28, 2009. As part of an ongoing effort to address the financial strength of the utility district, the board of commissioners adopted a 25% rate increase that was effective on December 1, 2008. The budget for the utility district would have been balanced but for additional non-recurring costs that have been incurred. Removing these non-recurring costs, the cash flow of the utility district would reflect a profit this fiscal year of \$15,000 instead of a loss of \$3732.22. We believe the true underlying financial weakness of the utility district relates to the inadequate rates for water charged to the South Elizabethton Utility District.

The Hampton Utility District has been and continues to pursue a new interlocal agreement with the South Elizabethton Utility District (SEUD) for the purchase of water. As you know, the Hampton Utility District and the SEUD have been in a contractual relationship based on a 50-year contract. That contract ended on June 19, 2009. The meters between the two utility districts were read on that day and the Hampton Utility District has moved SEUD from rate of \$1.00 per thousand gallons purchased to the current rate for Hampton Utility District's commercial customers of \$2.75 per thousand. Although the parties are continuing their negotiations, SEUD still refuses to enter into a contract with the Hampton Utility District to purchase water at the rate of \$2.15 per thousand gallons, which is the last and best offer Hampton has made. There is a possibility that SEUD may initiate litigation in an attempt to force the Hampton Utility District to sell water to them at a rate substantially less than \$2.15. Most likely, by the time your board meets, there will either be a new contract in place or the parties will be in litigation. The Hampton Utility District has just received written notification that South Elizabethton's payments at the rate of \$2.75 will be made under protest.

RECEIVED

JUL - 1 2009

LOCAL FINANCE

The Hampton Utility District finances have suffered greatly as a result of the low rates charged to the SEUD. For many years, the South Elizabethton rates have not covered the cost to produce water for them. Our flexibility in increasing their rates has been limited prior to the expiration of this contract. Although small increases in the last few years have been accepted by the SEUD, a true rate adjustment to reflect the cost to provide water to them has been allusive and has resulted in several law suits over the years. Although the customer base of the Hampton Utility District is smaller than the SEUD, Hampton's residential customers have been the primary water customers subjected to rate increases to maintain a financially strong utility district.

Since December 2008, the average charge per thousand gallons of water sold by the Hampton Utility District to its own customers has been as follows:

December 2008	\$4.86
January 2009	\$4.61
February 2009	\$4.28
March 2009	\$4.20
April 2009	\$4.83
May 2009	\$4.758
June 2009	\$4.556

During this entire time, SEUD has paid \$1.00 per thousand gallons purchased from Hampton Utility District. Combining the average per thousand gallons sold for Hampton direct customers and the water supplied to South Elizabethton shows a combined income per thousand gallons as follows:

Month	SEUD Gallons Used per Million	Hampton Utility Gallons Used per Million	Average Price per Thousand Gallons
December 2008	12.6	5.1	\$2.11
January 2009	14	5.6	2.03
February 2009	16.3	6.6	1.95
March 2009	16.65	6.9	1.96
April 2009	11.41	5.052	2.176
May 2009	12.296	5.266	2.176
June 2009	12.849	5.797	2.106

As the columns above suggest, when SEUD purchases more water, the average income per thousand gallons decreases over all for the utility district. Obviously, at a contract rate of \$2.15 per thousand gallons or a currently imposed rate of \$2.75 per thousand gallons, the total average per thousand gallons for Hampton Utility District will increase substantially. We expect the average rate water sales to approach closer to between \$2.90 and \$3.35 per thousand of gallons sold depending on whether SEUD purchases water at \$2.15 or \$2.75 per thousand gallons. Using June 2009 as an example, at a rate of \$1.00 per thousand gallons, Hampton

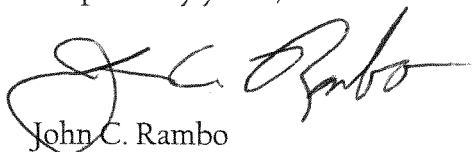
received \$12,849.00 in payment for water usage from SEUD. At a rate of \$2.75, the charge would have increased to \$35,335.00. At a rate of \$2.15 the revenue from SEUD would have increased to \$27,625.00. Using the rate of \$2.15, Hampton would have realized additional revenue of \$14,776 in June 2009. You or your office have provided projections that anticipates the revenue going forward for the Hampton Utility District to increase by 26%, which is a \$105,431.00 increase. The goal of the Hampton Utility District is to exceed this figure. A rate of \$2.15 per thousand to South Elizabethton would have generated the revenue you have suggested and more, which the Hampton commissioners believe is essential to improve an aging infrastructure.

Let me be clear, the Hampton Utility District attributes its revenue shortfall to the under-charge for water that is being made to SEUD. While a rate of \$2.15 per thousand gallons is still less than half the rate paid by Hampton Utility District customers on average, it would meet the projections that you have provided to the Hampton Utility District for future revenue requirements. We agree that it is essential to increase the revenue received by the Hampton Utility District. If the Board of Commissioners for the Hampton Utility District were not constrained by stiff resistance to realistic water rate from its primary customer, the Hampton Utility District's finances would not be under review by you or the Utility Management Review Board. We do believe that the expiration of the 50-year contract should help restore the necessary authority to the Hampton Board of Commissioners to secure the financial future of the utility district.

We believe a rate of \$2.15 per thousand gallons sold to SEUD is reasonable and defensible. It has been our experience that most utility districts and municipalities that produce water charge the same rate to other governmental entities purchasing water from those utilities. If the Hampton Utility District took the same approach, the water customers of SEUD would be playing closer from \$4.20 to \$4.86 per thousand gallons of water purchased.

The Hampton Utility District commissioners are open to any suggestions for improvements. Any assistance that you can provide us in establishing a stable relationship with SEUD would be appreciated.

Respectfully yours,



John C. Rambo

jcr/rc

cc: Hampton Utility District Board of Commissioners

UTILITY MANAGEMENT REVIEW BOARD
Case Study

Case: Roane Central Utility District, Roane County
Manager: Cathie Ingram
Customers: 1,733 water
Water loss: 17%

The Roane Central Utility District has been reported to the Board as having three consecutive years with negative change in net assets as of June 30, 2008:

The rates in effect for the June 30, 2008 audit were:

0 - 2,000 gallons	\$18.00 minimum bill
Over 2,000 gallons	\$6.25 per thousand gallons

On July 1, 2008, the rates were increased as follows, generating approximately \$69,000 annually:

0 - 2,000 gallons	\$18.00 minimum bill
2,001 – 48,000 gallons	\$ 6.75 per thousand gallons
Over 50,000 gallons	\$ 8.00 per thousand gallons

Effective August 1, 2009, the minimum bill was reduced to 1,500 gallons, which is projected to generate approximately \$50,000 per year.

All water is purchased from the City of Rockwood for \$1.65 per thousand gallons. That rate will incrementally increase as the city water rate to its customers increase.

In FY 08, there were 600 radio read meters in the system. Now the entire system is radio read. A large part of the system is new ductile iron pipe. Changing the depreciation from a 40 year life to a 50 year life is projected save about \$21,000 annually. Two long time employees are also retiring in fiscal year 2010 saving over \$100,000.

Staff recommends the Board endorse the actions of the Roane Central Utility District.

ROANE CENTRAL UTILITY DISTRICT				
HISTORY FILE				
	Audited	Audited	Audited	Audited
	2006	2007	2008	
Fiscal year ended 6/30				
Water revenues	\$ 929,047	\$ 907,318	\$ 940,575	
Other revenues	\$ 59,206	\$ 47,552	\$ 44,851	
Total Operating Revenues	\$ 988,253	\$ 954,870	\$ 985,426	
Total Operating Expenses	\$ 972,377	\$ 952,920	\$ 1,048,169	
Operating Income	\$ 15,876	\$ 1,950	\$ (62,743)	
Interest Expense	\$ 98,662	\$ 97,964	\$ 94,840	
Change in Net Assets	\$ (82,786)	\$ (96,014)	\$ (157,583)	
<u>Supplemental Information</u>				
Principal payment	\$ 62,520	\$ 103,094	\$ 650,148	
Depreciation	\$ 160,076	\$ 159,190	\$ 186,302	
Water Rates				
first 2,000 gallons	\$ 18.50	\$ 18.50	\$ 18.50	
over 2,000 gallons	\$ 6.25	\$ 6.25	\$ 6.25	
Customers	1,960	1,985	1,733	
Water loss	12%		17%	

Roane Central Utility District						
Projections						
			0%	Growth rate Projection 2010	Growth rate Projection 2011	Growth rate Projection 2012
Fiscal year ended 6/30	Audited 2008	Projected 2009				
Water revenues	\$ 940,575	\$ 940,575		\$ 940,575	\$ 940,575	\$ 940,575
Other revenues	\$ 44,851	\$ 44,851		\$ 44,851	\$ 44,851	\$ 44,851
Total Operating Revenues	\$ 985,426	\$ 985,426	27%	\$ 1,239,381	\$ 1,239,381	\$ 1,239,381
Total Operating Expenses	\$ 1,048,169	\$ 1,079,614	3%	\$ 1,112,002	\$ 1,145,362	\$ 1,179,723
Operating Income	\$ (62,743)	\$ (94,188)		\$ 127,379	\$ 94,019	\$ 59,658
Interest Expense	\$ 94,840	\$ 65,121		\$ 123,209	\$ 118,380	\$ 114,828
Change in Net Assets	\$ (157,583)	\$ (159,309)		\$ 4,170	\$ (24,361)	\$ (55,170)
<u>Supplemental Information</u>						
Principal payment	\$ 650,148	\$ 50,308		\$ 98,005	\$ 103,785	\$ 69,599
Depreciation	\$ 186,302	\$ 186,302		\$ 186,302	\$ 186,302	\$ 186,302
Water Rates						
first 2,000 gallons	\$ 18.50					
over 2,000 gallons	\$ 6.25					
Customers	1,733					
Water loss	17%					

**Roane Central Utility District
Monthly Commissioners Meeting
Thursday June 18, 2009**

The Board of Commissioners of Roane Central Utility District met in regular session at 3:00 P.M. at the Garbett Building in Midtown. All board members; Robert Creswell, Pete Leitnaker and Beth Mitchell were present. The minutes of the May meeting were read and approved.

Mr. Creswell said he had been contacted by Teresa Duncan about the request for water on Colonial Dr off Old Rockwood Hwy. She has collected most of the needed signatures and will be bringing them by the office when she is finished. Cathie Ingram said without having an engineer look at the project it should be at least \$200,000 to install the line. She suggested that the customers would be required to pay a minimum bill for at least two years.

Howard Sheldon, a customer, had a very bad water leak. He had 296,000 gallons go through his meter and will have a \$2,500 water bill. He has asked for a variance on the adjustment policy. The Board agreed to adjust per their previous formula.

Rep. Dennis Ferguson's office called us in regard to Mr. Moseley's complaint about the fire hydrant. I advised them that we did not own, install or maintain the hydrant, and that Mr. Moseley was aware of that. Mr. Moseley had told Rep. Ferguson's office that we had installed the hydrant; I told them we had not, that a contractor was hired by the VFD to install the hydrant.

Leatha Roberts has drawn up a new Purchasing Policy for the Board to adopt. Cathie Ingram reported that Mrs. Roberts has worked on several other projects since she came to work on June 1, 2009. The Board approved and adopted the policy.

Our audit for FY 2007-08 showed a decrease in net assets. This is not to be taken to mean that we lost money, but that is not so. After a review of finances District personnel have come up with a plan of action to present to the UMRB. Many of the steps in the plan have already been put in

place. The plan calls for lowering the amount of usage of the minimum bill from 2,000 gallons to 1,500 gallons. This would provide additional funds without raising the rate on our minimum usage customers. Also, depreciation has been changed from 40 years to 50 years. The retirement of Bob Ellis and Cathie Ingram will also provide additional money in the District funds. The Board approved the plan for presentation to UMRB.

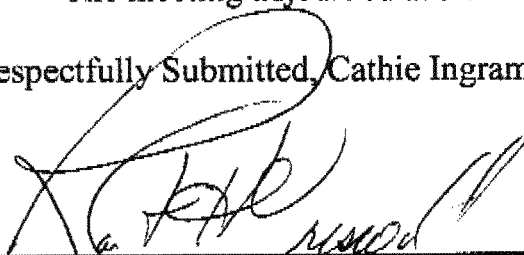
Cathie Ingram reported that property owners on Swan Pond Rd are being offered a "buy out" by TVA. With us having just installed a new line we will have a revenue loss as well as the capital expenditure loss. Mr. Creswell has the name of some TVA officials that need to be contacted. He said that TVA has confirmed they are offering to purchase all the property from Roane State Hwy to the rail road tracks. Cathie Ingram will contact TVA to see what course of action RCUD needs to take.

Cathie Ingram advised that we need a new banking resolution for the incoming Manager and Assistant General Manager. The persons approved to sign checks will be Robert Creswell, Pete Leitnaker, Leatha Roberts, Jerome Arnes and Cathie Ingram.

The office will be closed Friday July 3, 2009 in observance of Independence Day.

The meeting adjourned at 3:35 P.M.

Respectfully Submitted, Cathie Ingram.



Board Member



Board Member

Roane Central Utility District
FYE June 30, 2008
PLAN OF ACTION

New Rate Plan as of 07/01/08

\$18.50 minimum bill	2000 gallons
\$6.75*	over 2000 gallons
\$8.00*	over 50,000 gallons

**Previous rates were \$6.25 over 2000 gallons and there was not a rate for over 50,000 gallons*

New Rate Income Increase

\$6.25 to \$6.75 = \$31,000 per year
\$6.25 to \$8.00 = \$38,000 per year

Proposed New Rate Effective 08/01/09

Minimum bill reduced from 2000 gallons to 1500 gallons which would result in additional funds of \$50,000 per year.

Change depreciation from 40 years to the max allowable 50 years =	\$21,000
Budget cuts due to retirement of two employees =	\$107,000

Summary:

With the change in net assets the district will have a positive income of \$89,000.

New Rate Plan Effective 07/01/08	\$31,000	
New Rate Plan Effective 07/01/08	\$38,000	
Change Depreciation to 50 years	\$21,000	
Retirees	<u>\$107,000</u>	
	<u>\$247,000</u>	Positive budget cuts
Loss 2008	Minus <u>\$158,000</u>	
Change in Net Assets	<u>\$89,000</u>	Positive Income

Webb Creek Utility District

Outdoor Resorts of America Issues (filed 12/12/08):

1. District's rate not based on rate study or cost of service determination
2. District has applied the rates inappropriately (multiple connections vs. single connection)
3. District's wastewater rates generate additional revenue to supplement losses generated by the District's water service.

Bent Creek Golf Village Condominium Association (filed May 13, 2008)

Main objection: District's claim that each "timeshare unit" is an "equivalent" unit for purposes of the minimum bill.

These complaints resulted in an independent rate analysis being conducted by the District. A copy of that study is attached electronically to this board packet.

STATE OF TENNESSEE

PUBLIC CHAPTER NO. 72

SENATE BILL NO. 2049

By McNally, Henry, Burchett

Substituted for: House Bill No. 1979

By Fitzhugh

AN ACT to amend Tennessee Code Annotated, Section 7-82-703; Section 7-82-401 and Section 68-221-1010, relative to utility districts, water systems and wastewater facilities.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 7-82-401(g)(1), is amended by deleting language "has a negative change in net assets for three (3) consecutive years." in the second sentence and by substituting the following language:

has a negative change in net assets for two (2) consecutive years.

SECTION 2. Tennessee Code Annotated, Section 7-82-703(a), is amended by deleting the language "a negative change in net assets for a period of three (3) years," and by substituting the following language:

a negative change in net assets for a period of two (2) years,

SECTION 3. Tennessee Code Annotated, Section 68-221-1010(a), is amended by deleting the existing language and substituting instead the following:

Within sixty (60) days from the time that an audit of a water system or wastewater facility is filed with the comptroller of the treasury, the comptroller of the treasury shall file with the board the audit report of any water system or wastewater facility which has a deficit total net assets in any one (1) year, has a negative change in net assets for two (2) consecutive years, or is currently in default on any of its debt instruments.

SECTION 4. This act shall take effect upon becoming a law, the public welfare requiring it.

PASSED: April 6, 2009

STATE OF TENNESSEE
PUBLIC CHAPTER NO. 249
SENATE BILL NO. 1041

By Johnson

Substituted for: House Bill No. 1044

By Lynn, Kernell, Jim Cobb

AN ACT to amend Tennessee Code Annotated, Title 4, Chapter 29 and Title 7, Chapter 82, relative to the utility management review board.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 4-29-230(a), is amended by deleting item (57) in its entirety.

SECTION 2. Tennessee Code Annotated, Section 4-29-236(a), is amended by adding the following language as a new subdivision thereto, as follows:

() Utility management review board, created by § 7-82-701;

SECTION 3. This act shall take effect upon becoming a law, the public welfare requiring it.

PASSED: May 11, 2009



RON RAMSEY
SPEAKER OF THE SENATE



KENT WILLIAMS, SPEAKER
HOUSE OF REPRESENTATIVES

APPROVED this 20th day of May 2009

STATE OF TENNESSEE
PUBLIC CHAPTER NO. 316
HOUSE BILL NO. 875

By Representative Haynes

Substituted for: Senate Bill No. 1539

By Senator Burchett

AN ACT to amend Tennessee Code Annotated, Title 7, Chapter 82, Part 3, relative to the operation of utilities.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 7-82-302(e), is amended by adding the following language at the end of the subsection:

Such supplemental petitions shall be filed with the utility management review board simultaneously with the filing of the petition with the county mayor or county mayors but are not subject to approval or disapproval by the utility management review board as set forth in §§ 7-82-201(a) and 7-82-202(a). In the order granting a supplemental petition, the county mayor or mayors may exclude territory within the district's boundaries which is already receiving the service sought to be furnished by the district from the grant of authority to the district to provide such service under this subsection.

SECTION 2. This act shall take effect upon becoming a law, the public welfare requiring it.

PASSED: May 14, 2009



KENT WILLIAMS, SPEAKER
HOUSE OF REPRESENTATIVES



RON RAMSEY
SPEAKER OF THE SENATE

APPROVED this 27th day of May 2009

STATE OF TENNESSEE
PUBLIC CHAPTER NO. 320
HOUSE BILL NO. 876

By Representative Haynes

Substituted for: Senate Bill No. 1540

By Senator Burchett

AN ACT to amend Tennessee Code Annotated, Title 7, Chapter 82, Part 2, relative to utility districts.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 7-82-201(a), is amended by deleting the first sentence in this subsection and by substituting instead the following:

A petition for the incorporation of a utility district shall be filed with the utility management review board for review and approval and to the county mayor of any county in which the proposed district is situated, the petition to be signed by not less than twenty-five (25) owners of real property, who shall reside within the boundaries of the proposed district.

SECTION 2. Tennessee Code Annotated, Section 7-82-202(a), is amended by deleting the first sentence in this subsection and substituting instead the following:

The utility management review board shall issue an order approving or disapproving the petition for the incorporation of the utility district within ninety (90) calendar days of receipt of such petition by the board, its agent or representative. If the board approves the petition, the board shall forward its order of approval and the original petition to the county mayor of any county in which the proposed district will serve. If the board fails to act on the petition within ninety (90) calendar days of receipt of such petition, the board, its agent or representative shall forward the original petition to the county mayor of any county in which the proposed district will serve. If the board disapproves the petition, the board shall not forward the original petition to the county mayor of any county in which the proposed district will serve, and the petitioners may pray and obtain an appeal from the order disapproving the petition as provided in § 7-82-204.

SECTION 3. Tennessee Code Annotated, Section 7-82-202(e)(1), is amended by deleting subdivision (e)(1) in its entirety and substituting instead the following:

(e)

(1)

(A) Whenever two (2) or more utility districts by resolution adopted by the respective governing bodies concur in a merger or consolidation of such utility districts, or whenever a utility district by resolution of its governing body agrees or proposes to consolidate with a municipality or a county by transferring all of its property and obligations to the municipality or county, such governing body or bodies shall petition the county mayor of the county or counties in which they were created, or in case of multi-county utility districts the county mayor of any county in which they are situated in whole or in part, for an order permitting such merger, consolidation, or transfer of its franchise facilities, assets and obligations to a municipality or a county for the purpose of more efficiently and conveniently furnishing the service or services authorized by their order of creation. Upon such petition being filed, the county mayor or mayors shall proceed in exactly the same manner as provided in this chapter for the creation of a utility district except as set forth in subsection (g).

(B) Upon a finding that the public convenience and necessity requires the merger or consolidation of two (2) or more utility districts or the transfer of any utility district into a municipality or county and that the same is economically sound and feasible and in the public interest, an order shall be entered approving the merger, consolidation or transfer of the utility district or districts.

(i) If the petition is for a merger, the order shall designate the surviving utility district, and the boundaries of the surviving utility district shall be the boundaries of the merging utility districts. The members of the board of commissioners of the surviving utility district shall continue to serve their existing terms of office subject to the provisions of § 7-82-202 (e)(2).

(ii) If the petition is for a consolidation of utility districts, the order shall designate the name of the newly created consolidated utility district as the _____ Utility District of _____ County or Counties, Tennessee, shall define its territorial limits and shall appoint the commissioners of the utility district, all in accordance with the requirements of this chapter for the creation of a utility district subject to the provisions of § 7-82-202 (e)(2).

(iii) If the petition is for the transfer of all franchises, assets and liabilities to a municipality or a county, then such utility district shall be dissolved and provision made in the order for an equitable distribution of the assets and for the termination of the existence of the utility district and shall establish the legal rights, duties and obligations of the entities and parties involved.


(iv) The order shall provide that the surviving utility district in a merger, the newly consolidated utility district or the municipality or county to which a transfer is made shall assume the operation of the system or systems then being merged, consolidated or transferred and shall account for the revenues from the system or systems in such a manner as not to impair the obligations of the contract with reference to bond issues or other legal obligations of the utility district or districts, and shall fully preserve and protect the contract rights vested in the owners of such outstanding bonds, obligations, or contractual interests.

SECTION 4. Tennessee Code Annotated, Section 7-82-202, is amended by adding a new subsection (g) as follows:

(g) Petitions for a merger or consolidation of utility districts or for a consolidation of a utility district with a municipality or county under subsections (e) and (f) shall be filed with the utility management review board simultaneously with the filing of the petition with the county mayor or mayors under subsections (e) and (f) but are not subject to approval or disapproval by the utility management review board as set forth in §§ 7-82-201(a) and 7-82-202(a).

SECTION 5. This act shall take effect upon becoming a law, the public welfare requiring it.

PASSED: May 14, 2009


KENT WILLIAMS, SPEAKER
HOUSE OF REPRESENTATIVES


RON RAMSEY
SPEAKER OF THE SENATE

APPROVED this 27th day of May 2009


PHIL BREDESEN, GOVERNOR

STATE OF TENNESSEE

PUBLIC CHAPTER NO. 423

HOUSE BILL NO. 1779

By Representative Casada

Substituted for: Senate Bill No. 660

By Senator Stanley

AN ACT to amend Tennessee Code Annotated, Title 7, Chapter 82, relative to utility districts.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 7-82-702, is amended by adding the following as a new subdivision (19):

(19) Review and conduct a hearing of any decision of any utility district upon a written request of any utility district customer or an affected developer concerning the justness and reasonableness of the utility district's requirement that the customer or the developer build utility systems to be dedicated to the utility district or the justness and reasonableness of fees or charges against the customer or the developer related to such utility systems. Such written complaint must be filed within 30 days after the utility board has taken action upon a written complaint to the board of commissioners of the utility district. In making its decision as to whether the requirements, fees or charges are just and reasonable, the utility management review board shall take into account the reasonableness of the utility district's rules, policies and cost of service as well as any evidence presented during the hearing. Any judicial review of a decision of the board is by common law certiorari with the county of the utility district's principal office as the proper venue.

SECTION 2. Tennessee Code Annotated, Section 7-82-701, is amended by deleting subsection (b)(3) in its entirety and by substituting instead the following:

(3) Seven (7) members appointed by the governor, three (3) of whom shall be experienced utility district managers, three (3) of whom shall be experienced utility district commissioners and one (1) of whom shall be a consumer residing in the state who may have experience in residential development but is not engaged in utility district management or operation. The consumer member shall be appointed for a four (4) year term of office at the expiration of the term of office of a utility district manager first occurring after the effective date of this act.

SECTION 3. Tennessee Code Annotated, Section 7-82-307(b)(1), is amended by inserting the language “, and may conduct a contested case hearing in accordance

with subdivision (B)," after the language "shall conduct a contested case hearing" and the language "within the service area".

SECTION 4. Tennessee Code Annotated, Section 7-82-307(b)(1), is amended by designating the existing language as subdivision (A) and by adding the following language to be designated as subdivision (B):

(B) If the comptroller of the treasury investigates or conducts an audit of a utility district, the comptroller shall forward to the utility management review board any published investigative audit reports involving a utility district incorporated under this chapter. The board shall review those reports and may conduct a contested case hearing on the question of whether utility district commissioners should be removed from office for knowingly or willfully committing misconduct in office; knowingly or willfully neglecting to fulfill any duty imposed upon such member by law; or failing to fulfill his or her or their fiduciary responsibility in the operation or oversight of the district.

SECTION 5. Tennessee Code Annotated, Section 7-82-307(b), is amended by deleting the words "member by law, then the board" in the first sentence of subdivision (2) and by substituting instead the following:

member by law; or failed to fulfill his/her or their fiduciary responsibility in the operation or oversight of the district, then the board

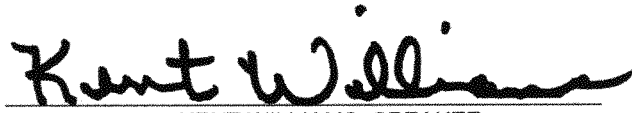
SECTION 6. Tennessee Code Annotated, Section 7-82-307(b)(3)(A)(i) is by deleting the word "or" at the end of subdivision (a), by adding the following language as a new subdivision (b), and by relettering the subsequent subdivision accordingly:

(3)(A)(i)

(b) A member or members failed to fulfill his/her or their fiduciary responsibility in the operation or oversight of the district; or

SECTION 7. This act shall be effective upon becoming the law, the public welfare requiring it.

PASSED: June 2, 2009



KENT WILLIAMS, SPEAKER
HOUSE OF REPRESENTATIVES



RON RAMSEY
SPEAKER OF THE SENATE

APPROVED this 11th day of June 2009



PHIL BREDESEN, GOVERNOR

UTILITY MANAGEMENT REVIEW BOARD

History

Clay County Gas Utility District

February 19, 1997 – petition before the Utility Management Review for creation

Projections included 300 customers by the end of 1997 and 600 by the end of 1998 when construction was complete.

The monthly charge for residential, public, commercial, and industrial customers was projected at \$5.00 with a per dekatherm cost of \$7.50 – based on a wholesale cost of \$3.00 at the pipeline or \$4.50 above the wholesale cost for residential, public, and commercial customers. The industrial per dekatherm cost would be negotiated.

The hook up fee during construction (to the end of 1998) would be zero. Anticipated to be \$250 after that time.

Construction costs of \$3,000,000.

A connection to Texas Eastern Pipeline about 20 miles the other side of the Kentucky state line.

Based on the provided information, the UMRB endorsed the District's creation

Officially created by the Clay County Executive on March 7, 1997

April 8, 1999 – A Special Purpose Examination was issued by the Division of Municipal Audit. The examination reflected an apparent theft of property, forgery, direct conflict of interest, and apparent fraudulent use of government tax-exempt status by Walton Haddix, project manager. The total amount involved was in the \$200,000 range. It is my understanding that prison time was involved for Mr. Haddix.

At some point, a company called GASCO Distribution Systems, Inc. was operating the District. In 1998, the Tennessee Regulatory Authority issued a Order finding that Gasco had “engaged in a pattern and practice of failing to comply with TRA rule 1220-4-1-.10” and placed Gasco on probation.

In 2001, Daugherty Petroleum, Inc., (aka Sentra Corporation) made a proposal to provide certain services to Clay Gas UD. At the same time, an agreement was signed for Sentra to buy gas from Clay County Gas UD. Both of these agreements are still active.

In 2004, a deal was worked out for the District to pay the bondholders somewhere in the range of twenty-six cents (\$0.26) on the dollar. Clay County was to issue debt to cover the deal and take over the system. However, the citizens of the county forced the matter to a referendum and voted it down

CLAY GAS UTILITY DISTRICT											
HISTORY FILE											
	3/7/97-8/31/99	9/1/99-8/31/01	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited	Audited
	1999	2001	2002	2003	2004	2005	2006	2007	2008		
Fiscal Year August 31											
Gas revenues	\$ -	\$ 948,762	\$ -	\$ 380,345	\$ 287,068	\$ 212,421	\$ 300,518	\$ 299,842	\$ 231,550		
Other revenues		\$ 13,603	\$ -	\$ 68,254	\$ 2,331	\$ 676	\$ 1,514	\$ 3,699	\$ 1,778		
Total Revenues		\$ 962,365	\$ -	\$ 448,599	\$ 289,399	\$ 213,097	\$ 302,032	\$ 303,541	\$ 233,328		
Total Operating Expenses	\$ -	\$ 1,049,519	\$ -	\$ 365,968	\$ 325,264	\$ 275,146	\$ 351,242	\$ 349,660	\$ 247,127		
Operating Income	\$ -	\$ (87,154)	\$ -	\$ 82,631	\$ (35,865)	\$ (62,049)	\$ (49,210)	\$ (46,119)	\$ (13,799)		
Interest Expense	\$ -	\$ 393,020	\$ -	\$ 187,547	\$ 181,018	\$ 173,653	\$ 165,794	\$ 157,278	\$ 148,069		
Net Loss/Change in Net Assets	\$ (127,483)	\$ (480,174)	\$ (155,616)	\$ (104,916)	\$ (216,883)	\$ (235,702)	\$ (215,004)	\$ (203,397)	\$ (161,868)		
Restatements/adjustments		\$ 36,349	\$ (5,367)								
Ret. Earn/Net Assets	\$ (127,483)	\$ (571,308)	\$ (732,291)	\$ (837,207)	\$ (1,054,090)	\$ (1,289,792)	\$ (1,504,796)	\$ (1,708,193)	\$ (1,870,061)		
Defaulted debt		\$ 98,486		\$ 676,794		\$ 1,285,059	\$ 1,587,844	\$ 1,892,297	\$ 2,197,710		
Supplemental Information											
Principal payment		\$ 99,106	\$ 95,000	\$ 100,000	\$ 120,000	\$ 130,000	\$ 135,000	\$ 145,000	\$ 155,000		
Depreciation		\$ 155,626		\$ 61,798	\$ 69,222	\$ 67,188	\$ 68,418	\$ 68,438	\$ 64,464		
Gas Rates											
Minimum monthly		\$ 6.00		\$ 6.00	\$ -	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00		
Gas cost charge per MCF		\$ 5.37		\$ 4.88	\$ -	\$ 4.88	\$ 4.88	\$ 7.44	\$ 10.28		
Distribution charge per MCF		\$ 4.00		\$ 4.00	\$ -	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00		
Customers		140		158		184	184	192	179		

Clay County Gas Utility District									
Projections									
	Audited 2008	Projected 2009	0%	Growth rate Projection 2010	Growth rate Projection 2011	Growth rate Projection 2012	Growth rate Projection 2013		
Fiscal Year August 31									
Gas revenues	\$ 231,550	\$ 231,550		\$ 231,550	\$ 231,550	\$ 231,550	\$ 231,550		
Other revenues	\$ 1,778	\$ 1,778		\$ 1,778	\$ 1,778	\$ 1,778	\$ 1,778		
Projected revenue increase			70%	\$ 162,085	\$ 162,085	\$ 162,085	\$ 162,085		
Total Revenues	\$ 233,328	\$ 233,328		\$ 395,413	\$ 395,413	\$ 395,413	\$ 395,413		
Total Operating Expenses	\$ 247,127	\$ 254,541	3%	\$ 262,177	\$ 270,042	\$ 278,144	\$ 286,488		
Operating Income	\$ (13,799)	\$ (21,213)		\$ 133,236	\$ 125,371	\$ 117,269	\$ 108,925		
Interest Expense	\$ 148,069	\$ 140,466		\$ 129,628	\$ 118,153	\$ 105,881	\$ 92,653		
Change in Net Assets Restatements/adjustments	\$ (161,868)	\$ (161,679)		\$ 3,608	\$ 7,218	\$ 11,388	\$ 16,272		
Total Net Assets	\$ (1,870,061)	\$ (2,031,740)		\$ (2,028,132)	\$ (2,020,914)	\$ (2,009,526)	\$ (1,993,254)		
Defaulted debt	\$ 2,197,710								
Supplemental Information									
Principal payment	\$ 155,000	\$ 165,000		\$ 175,000	\$ 185,000	\$ 200,000	\$ 215,000		
Depreciation	\$ 64,464	\$ 64,464		\$ 64,464	\$ 64,464	\$ 64,464	\$ 64,464		
Gas Rates									
Minimum monthly	\$ 6.00	\$ 6.00							
Gas cost charge per MCF	\$ 10.28	\$ 10.28							
Distribution charge per MCF	\$ 4.00	\$ 4.00							
Customers	179								

CITY OF CELINA
PRELIMINARY FINANCIAL SUFFICIENCY STUDY
CLAY GAS UTILITY DISTRICT

Prepared by Alan Major, MTAS Financial Consultant

January 2009

MTAS evaluated the Clay Gas Utility District (CGUD) by reviewing current operational policies, past audit reports, reviewing their capital needs, various managerial reports, and reviewing projected revenues and expenses through FY 2011.

MTAS depended on the information supplied by CGUD staff and the Comptroller's office to draw the conclusions presented in this report. Their help was instrumental in pulling all the information together. This report considers information received through December 2008.

This study was made on behalf of the City of Celina in order to determine if it's taking over CGUD is feasible.

FINDINGS

1. The CGUD is in poor financial shape. It does not appear to have ever made a profit and has a negative Retained Earnings balance of \$1,708,193 as of June 30, 2007.
2. The original documentation of assets acquired before August 31, 2001, is lost requiring the auditors to **not** give an opinion on the financial statements. Basically, there were no asset records to audit. There are valid concerns that the capital assets are overstated at \$2,420,685 (includes \$511,372 in accumulated depreciation).
3. Reports and discussions indicate that gas line installation was poorly done, showing the need for remedial construction to put lines deeper in the ground. There could be some liability associated with ownership and the audit report states that there is no liability insurance.
4. For a variety of reasons, there are **not** a lot of customers buying natural gas from GCUD. Lack of capital was a major problem requiring CGUD to purchase gas on the spot market rather than lock in a long term purchase contract at a fixed price. Many of the larger customers, such as hen house operations, have gone to propane for heat. The propane sellers have taken advantage of the situation by bringing large inventories of propane to the area insuring their customers of constant heating fuel.

5. Propane has been more expensive than natural gas. This effectively caps or limits future natural gas rates to the cost of propane gas.
6. CGUD issued revenue bonds in 1998 in the amount of \$3,140,000. There has never been a principal payment made. I do not believe there has been any interest payment on this debt either but some money has been reserved for debt service (see next item). As of 6/30/2007, there was \$1,007,844 due in past interest and \$580,000 in past due principal.
7. The debt was issued by Morgan Keegan. It is my understanding that they are willing to accept .26 on the dollar. That computes to \$816,400 on the original issue. This will have to be "new" money as there is \$75,187 reserved for bond payments and only \$14,876 in unrestricted cash.
8. Debt service on \$1,000,000 for 30 years at 5% is \$64,419 consisting of \$14,754 of principal and \$49,665 of interest in the first full year of repayments. I used a million because the system needs money to expand and repair the Tennessee gas infrastructure.
9. One bright note is that CGUD owns a tap and regulator station on the Eastern Texas pipeline. This is a valuable asset ranging in value up to \$500,000 depending on the purchaser.
10. CGUD contracts with the Sentra Corporation to perform maintenance and safety checks on the gas system. Sentra also prepares the billing and is essentially managing the operations in Tennessee and Kentucky. Its parent company, Daugherty Petroleum, Inc., is contracted to purchase the gas. CGUD lacked the funds necessary to consistently pay for gas relegating it to the spot gas market where prices are higher. This contractual relationship has been good for the customers by allowing for a better gas purchase price than CGUD could get.
11. The current gas prices are competitive but a large increase is necessary in order to get the operation just to meet its expenses, including debt.
12. At the end of 2007, CGUD's largest commercial customer went out of business owing \$56,614 to CGUD.
13. CGUD's annual gas revenues have been around \$300,000. Annual operating expenses have been around \$350,000 including \$68,000 in depreciation.
14. CGUD has approximately 191 customers. Residential customers are charged \$6.00 minimum and gas charges of \$7.44 per mcf and \$4.00 distribution charge per mcf. Commercial customers are charged \$20.00 minimum and gas charges of \$7.44 per mcf and \$4.00 distribution charge per mcf. Industrial customers are charged \$50.00 minimum and gas charges of \$7.44 per mcf.

15. The City of Celina operates a utility now and could run the gas system. I would caution that a gas operation has unique safety and required maintenance that is far different from other utility operations. Conceivably, the City could replace Sentra in the maintenance and operation of the gas line. With enough capitalization, the City could replace Daugherty Petroleum, Inc. as the gas purchaser.
16. The city does not have any personnel with gas system experience. Purchasing gas is simple enough but getting the best price is both art and science. Small operations should consider joining a buying consortium enhancing your buying power and assuring reliable gas flows.
17. The city and county want natural gas available in Clay County. The only thing that makes this project financially appealing is the potential for debt settlement resulting in substantial savings. I used \$1 million in the findings area above. However, a better solution would be a cash donation from another government. Any money received could reduce the amount of new debt lowering the projected annual debt service.
18. If the City takes over CGUD, there is no doubt that significant increases in gas rates are necessary in order to fund depreciation and a reduced debt payment. These increases are necessary to comply with State laws and to operate in a sound financial manner.
19. Poor financial operations have left the gas system with fewer customers and little cash. In fact, a large customer went out of business at the end of 2007 further reducing the customer base and cash flow. The gas system needs operating capital and probably infrastructure improvements.
20. An earlier recommendation by the Utility Management Review Board (UMRB) was to raise rates by 70%. If the debt is reduced to \$0.26 on the dollar, I believe you can raise gas rates by 50% and still become profitable. Raising the current rates by 50% would create an additional \$140,000. Projected revenues would therefore be **\$440,000** annually (Current annual sales of \$300,000 plus the \$140,000).
21. It is likely that gas prices will drop due to the economy which might reduce operating costs. I would still project \$350,000 in operating costs which includes \$68,400 in depreciation. Increase that by projected interest expense during year one by \$49,665 for a total of **\$399,665** in operating expenses. That would leave \$40,335 net profit or just over 9% profits (\$440,000 less \$399,665). Of course these are estimates even though great care and effort has been put into developing them.
22. From a cash flow perspective, the principal debt repayment in year one of \$14,754 can be offset with depreciation expense. The \$399,665 less \$68,400, and plus

\$14,754 equals \$346,019 in annual cash outflow in year one. Cash flow in year one is a positive \$93,981.

RECOMMENDATIONS

1. Do not buy under the current scenario.
2. Do not buy unless the following issues can be improved.
 - a. Make a counter offer in writing to satisfy the bonds and past due interest. Although \$0.26 has been discussed, I would want a better deal. This system is too small to carry a big debt load. If the new debt were only \$500,000 instead of \$1,000,000, the annual debt service saving would be \$32,000 per year. Ultimately, this means lower gas rates to the customers.
 - b. Seek a donation from Clay County to pay toward the renegotiated payoff to Morgan Keegan. Most of the customers are outside the city. Ultimately, this means lower gas rates to the customers.
 - c. Seek an appropriation from the Utility Management Review Board (UMRB). Although legally permissible, there have not been any appropriations to the UMRB to make this type of assistance. This is an embarrassment to the State. Ultimately, this means lower gas rates to the customers.
3. If the City decides to buy.
 - a. Hire an engineer or firm with experience in gas operations. Records are sorely lacking. As built drawing were being drafted. A full record of all lines and gas infrastructure is crucial. Create documentation to establish infrastructure records and values that the auditors would accept.
 - b. Review gas contracts with Sentra and Daugherty Petroleum, Inc. Somebody has to perform maintenance and safety checks (like Sentra). Somebody needs to purchase gas on long term contracts in order to lock in a stable rate (like Daugherty).
 - c. The City has no personnel with gas system experience. Get training for those personnel involved with the new gas system.
 - d. Survey the current customers. You need to find out what problems exist. You should inform customers about the changes in ownership. You should alert everyone to higher future gas rates.

- e. Make every effort to contact and regain those lost customers who now use propane. This is a small gas operation that needs additional growth for its viability.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT

Justin P. Wilson
Comptroller of the Treasury

BANK OF AMERICA PLAZA
414 UNION STREET, SUITE 1100
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 532-4460
FAX (615) 532-4499

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

March 9, 2009

MEMORANDUM

TO: Utility Management Review Board
Suite 1700, 505 Deaderick Street
Nashville TN 37243-1402

Water and Wastewater Financing Board
Suite 1700, 505 Deaderick Street
Nashville TN 37243-1402

FROM: Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

A handwritten signature in black ink, appearing to read "D. Dycus", written over the "FROM:" line.

SUBJECT: Schedules of Unaccounted for Water – Courtesy Filings

Sections 7-82-401 and 68-221-1010 of *Tennessee Code Annotated* provide that the Comptroller of the Treasury shall file with the respective boards the audit reports of those water systems whose unaccounted for water loss is excessive as established by the rules promulgated by the boards.

Until such a time as an excessive water loss rate is established, our office will file copies of all water loss schedules included in the annual financial reports of water systems. This will be done as a courtesy while the boards are in the process of setting an excessive water loss rate. For those systems that do not include a water loss schedule in their audit report, as a courtesy we will notify the boards of the omission.

If I may be of any further assistance during this transitional period for both boards, please contact me.

It is proposed to put this information on the UMRB website.

Complaint procedure:

Customer complaint

Complaints shall include those relating to availability of service, quality of service, adjustment of bills, and all complaints of any nature concerning the services provided and the charge for the services. Water quality issues are handled by the Division of Water Supply in the Tennessee Department of Environment and Conservation. Complaints also include the justness and reasonableness of fees, charges and requirements of systems built and dedicated to the district.

If you have a complaint against a utility district, you must first take that complaint to the Board of Commissioners of the utility district at a regularly scheduled board meeting

Any decision of the Board of Commissioners relative to your specific complaint may be appealed to the UMRB in writing within thirty (30) days of the district decision.

The UMRB's responsibility is to determine if the district considered and resolved the complaint in accordance with the rules and regulations of the district. The reasonableness of a policy is only considered in the case of systems built by someone else and dedicated to the district.

Rate review

(This is a request to review the rates of a district)

A petition must be signed by ten percent (10%) of the customers of the district. The signature must be from the person listed on the account at the district office.

The alternative method for a rate review is for a water customer to file with the commissioners of the district a protest, giving reason why, in the opinion of the water user, the rate(s) published in the required annual report are too high or too low. After review by the commissioners, an appeal may be made to the UMRB by written request within thirty (30) days of the decision of the board of commissioners.

4/1/2009	jw	Rodney Scoggins	423-504-7207	Copper Basin	water cut off w/o notice	explained UMRB procedures
4/3/2009	jw	Mickey Babcock	615-683-4107	Smith UD	unknown	returned call, but no answer
4/3/2009	jw	Linda Noe	865-862-9807	Morristown	double rates for outside	City system
					Call Smyrna and get rates, then call apt. & ask why so high.	
4/6/2009	jw	Steve Lunn	615-220-4534	Imperial Gardens Apt		no authority to help
						In the process of changing mgmt co, billed every 60-80 days, now gotten 3 bills in 30 days. UD says paid for water used, but not minimum bills, so catching up. Explained UMRB procedures.
4/6/2009	jw	not given	423-391-7621	Bristol Bluff City UD	bills too often	email response to Bettye Stanton, WBC, role and procedures of the UMRB
4/6/2009	jw	Shirley	931-456-0762	Crab Orchard UD	construction interfered w/well	no response from WHUD
4/14/2009	jw	John Aldridge	TRA	White House UD	use of asbestos pipe	Is it legal?
4/14/2009	jw	Barbara Price	TRA	Oak Ridge UD	\$30 fee for door hanger	not happy
4/24/2009	jw	Harry O'Rear	423-698-2382	Savannah Valley UD	water cut off w/o notice	returned call and left message
4/27/2009	jw	Gwendolyn Landsford	865-458-1228	unknown from TDEC	trouble w/ utility	Some customers are not happy with project. Can they stop it?
4/27/2009	jw	Louise Groneful	931-484-2633	Crab Orchard UD	UD wants to run pipe to Watts Bar	explained UMRB procedures
4/29/2009	jw	Conie Tosh	TRA	Walden's Ridge UD	driveway repair	billing cycle changed, due 29th not 1st. Get paid on the first. Cost \$180 to get water back from a \$30 overdue bill
5/1/09	jw	Brenda Browning or Brenda Johnson	931-378-7138	Clarksville W & G	water cut off	Referred to City
5/1/2009	jw	William Meck	TRA	First UD of Knox Co.	yard repair	wants to know the responsibility of the UD
5/1/2009	jw	Marvin	931-224-8481	unknown	ret'd call - no answer.	
					won't set a 2nd meter, but charging 2 minimums.	also psi problems and UD won't provide info. Referred to Erich Webber @ Nash
5/12/2009	jw	James Pelham	931-232-6891	North Stewart UD	Explained UMRB procedures	EFO and OORC (AVB)
5/14/2009	jw	Tom Rybak	TRA	Horton Highway UD	rate complaint	referred back to TRA
5/14/2009	jw	Curtis Phillip Scott	TRA	Persia UD	Meter set fee	explained UMRB procedures
5/14/2009	jw	Mary Faulhaber	TRA	Old Knox Hwy UD	high bill/rude staff	explained UMRB procedures
5/14/2009	jw	Raymond Darby	TRA	Midd TN Nat Gas UD	high bill	explained UMRB procedures
5/20/2009	jw	Denise Closson	TRA	Union-Fork Bakewell UD	high bill	explained UMRB procedures
5/22/2009	jw	Rhonda Rainey	896-4974	Consolidated UD	water cut off	bill paid but water cut off - computer glitch
5/26/2009	jw	John Ayoub	TRA	Cunningham UD	water cut off	explained UMRB procedures
5/26/2009	jw	Michelle Ghorashi	TRA	Hallsdale Powell UD	high bill	explained UMRB procedures
5/26/2009	jw	Baxter Spector	865-947-2177	Hallsdale Powell UD	high bills	explained UMRB procedures
6/3/2009	jw	Michael d Holzman	letter	Harpeth Valley UD	adjustment	explained UMRB procedures

6/4/2009									bought house in 9/07 water w/ NE. Never told that sewer was HP. Never been late on water bill, never got a sewer bill. In 4/09 NE sent info to HP and got a sewer bill for \$931. She feels NE at fault for not telling HP or customer re: sewer bill. explained UMRB procedures.
6/11/2009	jw	Hanley Coppick		865-687-0111	Northeast Knox UD & Hallsdale Powell UD		water cut off 4 non pay of sewer		
6/12/2009	jw	Sherry Smith		423-623-7276	Newport utilities		electric		
6/18/2009	jw	Melody Burns		865-556-8553	South Blount UD		cut off for non pay		
	jw	Cann Garrett		e-mail	Englewood		water quality		
							refused service to son		
6/22/2009	jw	Grey Depugh		865-524-2456	Knoxville Utility Board		because father has		
6/22/2009	jw	Lyngail Northcutt		TRA	Big Creek UD		outstanding balance		referred back to city officials
							attitude, won't move meter		explained UMRB procedures
6/29/2009	jw	not given		275-8915	Madison Suburban UD		high connection fees - told him that law allows UD to set rates and fees needed		explained procedures, he wanted Gov's number
6/29/2009	jw	Pam Bazemore		letter	Savannah Valley UD		high fees/unreasonable charges		explained UMRB procedures
7/20/2009	jw	Marshell Bass		TRA	Madison Suburban UD		failure to transfer account		explained UMRB procedures
7/20/2009	jw	Charles Gunsallus		TRA	Hallsdale Powell UD		high rates/water quality		explained UMRB procedures
				865-809-5954					
7/20/2009	jw	Stan Green		865-292-5355					explained UMRB procedures/referred to Knox FO
7/22/2009	jw	Doug Liman		865-809-7182	East Sevier UD		health issue		fees are unreasonable/non-refundable
				423-426-7210	Chuckey UD		large fees for landlords		explained UMRB procedures/talked to UD and Jackson FO
7/28/2009	jw	Lori Keller		731-407-4503	NE Henry UD		rude/sewer leaking		

JURISDICTION LIST FOR THE UTILITY MANAGEMENT REVIEW BOARD APRIL 1, 2009

<u>DISTRICT</u>	<u>COUNTY</u>	<u>LAST AUDIT</u>	<u>LAST BD APPEARANCE</u>
Bedford County Utility District	Bedford	June-08	October-09
Bristol-Bluff City Utility District	Sullivan	July-08	October-09
Clay Gas Utility District	Clay	August-07	April-09
Hampton Utility District	Carter	November-08	August-09
Hornbeak Utility District	Obion	April-07	August-07
Iron City Utility District	Lawrence	December-08	October-08
Lakeview Utility District	Hawkins	December-07	February-08
Lone Oak Utility District	Sequatchie	December-07	October-08
Minor Hill Utility District	Giles	December-08	October-09
Mooresburg Utility District	Hawkins	December-06	August-08
Riceville Utility District	McMinn	June-08	February-08
Sambug Utility District	Obion	January-08	October-08
Sunbright Utility District	Morgan	March-08	February-09
Upper Cumberland Gas Utility District	Cumberland	June-08	April-08
Webb Creek Utility District	Sevier	December-08	February-08
West Point Utility District	Lawrence	December-07	December-07

UTILITY MANAGEMENT REVIEW BOARD

Members: 9 Governor appoints: 7 Ex Officio: 2 (Comptroller of the Treasury or designee and Commissioner of Environment and Conservation or designee)
 Terms: 4 years Meeting frequency: meets bimonthly

UMRB MEMBERS	PHONE	E-MAIL	REPRESENTING	Term Ends	RECOMMENDATION PROCESS
Ann Butterworth James K. Polk Building, 17 th Floor Nashville, TN 37243-0260	615-401-7910	Ann.Butterworth@tn.gov	Designee, Comptroller	No Term Limits	Appointed by the Comptroller
S. Donnie Leggett 765 Hays Road Moscow, TN 38057	901-877-6236	sdl@hf.utilitydistrict.com	Hardeman Fayette Utility District	10-31-2012	Governor appoints upon consultation with the Tennessee Association of Utility Districts
Troy Roach P.O. Box 96 New Market, TN 37820	865-475-2467	troymud@charterinternet.com	Utility District Manager	10-31-2010	Governor appoints upon consultation with the Tennessee Association of Utility Districts
David Norton Hamilton County Courthouse Room 204 Chattanooga, TN 37402	423-209-6150	Dnorton@mail.hamiltontn.gov	Chairman Utility District Commissioner	10-31-2011	Governor appoints upon consultation with the Tennessee Association of Utility Districts
Dr. Rosemary Owens 868 Wade Road Murfreesboro, TN 37129	615-898-2177 615-898-3593 Fax	owens@mtsu.edu	Utility District Commissioner	10-31-2011	Governor appoints upon consultation with the Tennessee Association of Utility Districts
Ken Pointer Department of Environment & Conservation 20 th Floor, L & C Tower Nashville, TN 37243	615-532-0229	Ken.pointer@state.tn.us	Dept. of Environment & Conservation	No Term Limits	TDEC Commissioner
Ron L. West 3900 Taft Highway Signal Mt., TN 37377	423-886-2683	Ron.wrud@comcast.net	Walden's Ridge Utility District	10-31-2009	Governor appoints upon consultation with the Tennessee Association of Utility Districts
Ray Smith C/o Ray Smith Chevrolet Pontiac Buick and Geo PO Box 487 Camden, TN 38320	731-584-6141	Raysmith72@hotmail.com	Utility District Commissioner	10-31-2009	Governor appoints upon consultation with the Tennessee Association of Utility Districts
Stafford, Donald Eastside Utility District PO Box 22037 Chattanooga, TN 37422	423-892-2890	eud@vol.com	Utility District Manager	10-31-2010	Governor appoints upon consultation with the Tennessee Association of Utility Districts

UTILITY MANAGEMENT REVIEW BOARD

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The Department of Finance and Administration
Department Head and Board Member - Travel Reimbursement Rate Schedule
October 1, 2008
(Mileage Revised Effective July 1, 2009)

General Reimbursement Rates

Standard Mileage Rate effective July 1, 2009	\$	0.51/mile
Standard Mileage Rate Effective 10/1/08 – 6/30/09	\$	0.54/mile
Maximum Parking Fee Without Receipt		8.00/day
Fees for Handling Equipment/Promotional Materials		20.00/hotel

Out-of-State Reimbursement Rates

Employees should utilize the U.S. General Services Administration CONUS (Continental United States) rates provided by the federal government. To view the CONUS rates, access the Department of Finance and Administration web page @ <http://www.state.tn.us/finance/> Click on Division of Accounts; then scroll to Policy Development where there is a direct link to the GSA CONUS rates. There is also a link on the Finance and Administration Intranet Travel Page Site at:
http://www.intranet.state.tn.us/finance/News_Event/index/html.

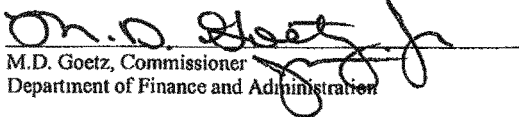
Use the CONUS standard rates for all locations within the continental United States not specifically shown on the CONUS web page as a listed point. Both in-state and out-of-state meals and incidentals are reimbursed at 75% for day of departure and/or day of return.

Department Head and Board Member - In-State Travel Reimbursement Rates

In-state lodging and meal rates follow the CONUS rates for Tennessee. The standard in-state lodging rate of \$80.00 and \$39.00 for meals and incidentals should be used for all in-state locations not listed below.

Counties	Maximum Lodging	Maximum Meals & Incidentals	75% of Meals & Incidentals
Davidson (Nashville)	127	54	40.50
Shelby (Memphis)	109	49	36.75
Williamson (Brentwood/Franklin)	111	49	36.75
Hamilton (Chattanooga)	97	44	33.00
Knox (Knoxville)	93	49	36.75
Anderson (Oak Ridge)	96	39	29.25

In accordance with the provisions of TCA 4-3-1-8 (3) and the Comprehensive Travel Regulations, the above travel rates supersede and rescind all previous promulgated travel rates. These rates are effective October 1, 2008 and shall remain in effect until subsequently modified or withdrawn.


M.D. Goetz, Commissioner
Department of Finance and Administration

6-2-09
Date